

# The Detroit News

## Editorial: Reduce taxes on craft liquor

*The Detroit News: October 6, 2016*

The Senate recently passed a bill that would significantly lighten the tax burden on Michigan's craft distilling industry. That's a good call. Just as lawmakers have reined in regulations on craft brewers in the state and allowed that industry to thrive, they should do the same for the craft liquor distillers.

The Senate bill would cut taxes by about 45 percent — to 20 percent from what is currently about a 65 percent markup by the Michigan Liquor Control Commission — on the first 60,000 proof gallons of liquor spirits manufactured annually. Bottles produced after that would be taxed at the old rate.

Michigan needs to update this tax regime to allow its craft liquor industry to be competitive with those in nearby states. The current excessive markups force Michigan's liquor prices substantially higher than surrounding states — ninth highest in the country, according to the Tax Foundation. Indiana ranks 42nd and Wisconsin 40th.

The state's onerous tax structure, combined with federal taxes, unnecessarily stifle investment. Once the state relaxed regulations on breweries several years ago, the beer industry began to thrive. Michigan now ranks fifth in the nation in terms of the number of craft beer facilities, and it's a noted attraction for tourists.

The current tax structure for liquor also benefits large, international manufacturers over small, hometown companies that don't have the same economies of scale. International distributors can afford to get their products on the shelf at wholesale prices. Since the state tax applies to the shelf price that means global companies with little invested in Michigan pay a lower tax rate.

Many Michigan spirits manufacturers make their products from Michigan-based grains. Freeing up their investment capital would benefit other parts of the state's economy as well.

The tax cut would take away \$22 million to \$35 million from the general fund, according to an analysis from the Senate Fiscal Agency. But much of the current tax revenue is allocated to the state's liquor commission to help fund regulatory enforcement and administrative costs. Streamlining those costs could help make up for the leaner tax revenue.

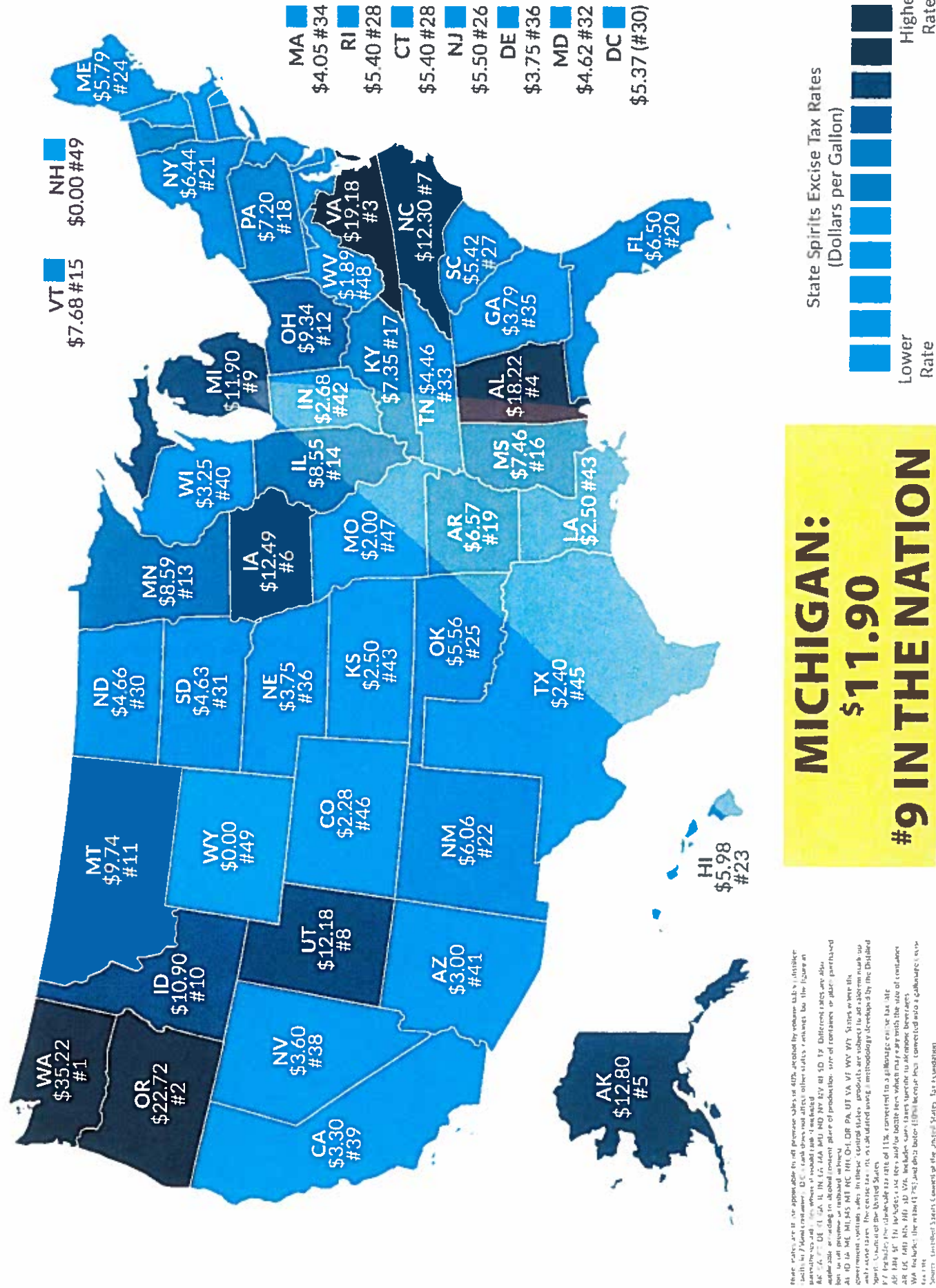
Additionally, the tax cut would free up investment funds and capital for craft distillers, which means their businesses will grow. It would also encourage new distillers to open. Both would broaden the tax base, so business growth would offset at least some of those lost tax dollars.

Michigan's craft distilling industry has much room to grow. There are about 40 licensed distilleries throughout the state, according the Michigan Craft Distillers Association. Hubs have formed in the northern and western parts of the state, as well as in Detroit.

Unique, locally sourced spirits also attract new visitors and tourists, an important part of Michigan's diverse economy.

The House should consider speedy passage of the bill to reduce taxes on craft liquor, and let the state's entrepreneurial atmosphere spur new growth and new businesses.

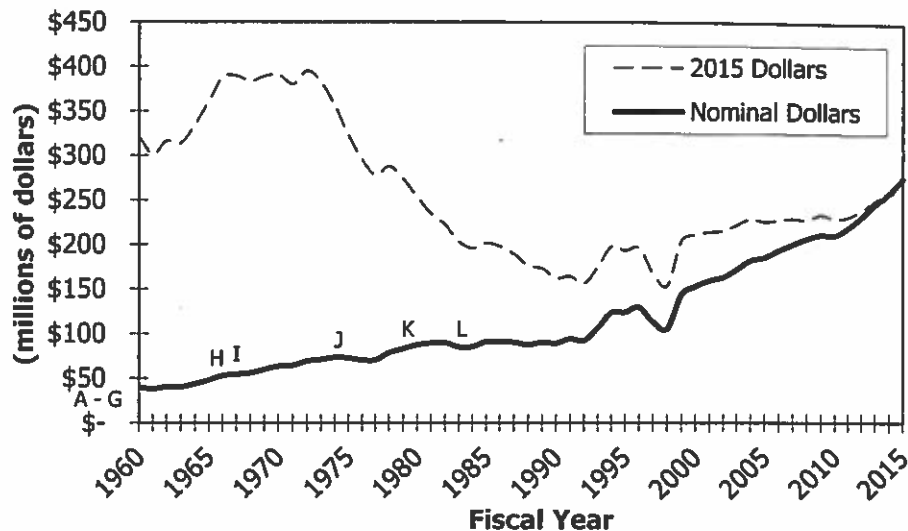
# STATE SPIRITS EXCISE TAX RATES (DOLLARS PER GALLON)



# OUTLINE OF THE MICHIGAN TAX SYSTEM

## LIQUOR MARKUP (CONTINUED)

Chart 6  
Michigan Liquor Markup Tax Revenue, 1960 - 2015



- A 1933 PA 8 (ES) — Liquor Markup Tax established with a 45% markup rate effective January 1, 1934.
- B 1937 \* — Increased markup rate to 55% effective August 1937.
- C 1940 \* — Decreased markup rate to 50% effective July 1940.
- D 1941 \* — Decreased markup rate to 46% effective October 1941.
- E 1945 PA 33 — Discount rate established at 10% for off-premise purchases and 15% for on-premise purchases effective April 30, 1945.
- F 1947 PA 350 — Discount rate decreased to 12.5% for on-premise purchases effective July 3, 1947.
- G 1952 \* — Decreased markup rate to 44% effective July 1952.
- H 1966 \* — Increased markup rate to 46% effective March 1966.
- I 1967 PA 90 — Increased the discount rate for off-premise purchases to 11.5% effective February 26, 1967.
- J 1975 \* — Increased markup rate to 48% and increased the discount rates to 15% for both off-premise purchases and on-premise purchases effective January 1975.
- K 1980 \* — Increased markup rate to 51% and increased the discount rates to 17% for both off-premise and on-premise purchases effective October 1980.
- L 1983 \* — Increased markup rate to 65% effective May 1983.

\* Most markup changes have occurred because of administrative action.

# APPROXIMATE COST BREAKOUT OF A SPIRIT WITH A \$19.99 SHELF PRICE

Convention Facilities Tax – 4%

**\$.71**

School Aid Tax—4%

**\$.71**

General Fund Tax—4%

**\$.71**

Retail Sales Tax—6%

**\$1.20**

**Michigan Liquor Control  
Commission profit**

**\$3.94**

Store Profit

**\$3.00**

Federal Excise Tax

*(\$13.50 per proof gallon*

*Paid by distillery or importer)*

**\$4.28**

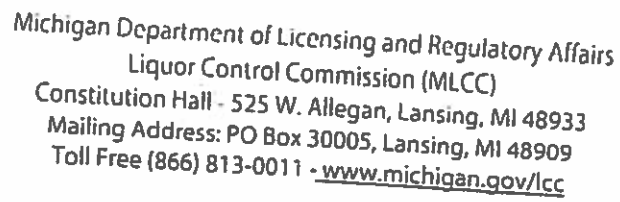
Distillery or Importer

**\$6.67**

*\*MLCC mark-up is 65%*

**PROPOSED LEGISLATION WOULD REDUCE THE  
MLCC MARK-UP ON THE FIRST 60,000 GALLONS OF  
PRODUCT SOLD IN MICHIGAN FROM 65% TO 20%.**





Month/Year		License Number:	
Name of Business:		I declare that the information contained in this report is correct.  Signature: _____  Your Title: _____ Date: _____	
Street:			
City, State, Zip Code:			
Business Telephone Number:			
Instructions:			

1. Enter the MLCC Code Number in column 1.
2. Enter the description and size of each product separately in column 2.
3. Enter the number of bottles of each MLCC code of liquor sold for a month in column 3.
4. Enter the tax rate provided by the State of Michigan for that size bottle in column 4. See Small Distiller Liquor/Brandy Sales Tax Rate Schedule or contact the MLCC at 517.322.1382 for this information.
5. Calculate the tax amount by multiplying the amounts in columns 3 and 4 and entering the result in column 5.
6. Add all the amounts in column 5 and enter the Total Payment Due at the bottom of column 5.
7. Make checks payable to STATE OF MICHIGAN/MLCC Please write your license number on the check.
8. Mail check and this report to the address at the top of this form.

**DUE DATE:** The 15<sup>th</sup> of the month following the month being reported. This report must be filed each month whether or not any sale transactions have occurred.

LC 804 (Rev 08/14)  
AUTHORITY MCL 436.1105(9) and 436.1233  
COMPLETION Mandatory  
PENALTY Fine or Revoke License

The Department of Energy, Labor & Economic Growth will not discriminate against any individual or group because of race, sex, religion, age, national origin, color, marital status, disability or political beliefs.



**DEPARTMENT OF THE TREASURY**  
**ALCOHOL AND TOBACCO TAX AND TRADE BUREAU (TTB)**  
**MONTHLY REPORT OF PROCESSING OPERATIONS**

1. PLANT NUMBER	2. MONTH AND YEAR
3. NAME OF PROPRIETOR	
5. Employer Identification Number (EIN)	

1. Every proprietor engaged in processing operations must prepare this form each month in duplicate.  
 2. The proprietor must forward the original to the Director, National Revenue Center, 550 Main St, Ste 8002, Cincinnati, OH 45202-5215, on or before the 15th day of the month following the month for which prepared.  
 3. The copy is to be kept on file by the proprietor.

4. LOCATION OF PLANT

PART I - BULK INGREDIENTS			PART II - FINISHED PRODUCTS		
TRANSACTION (a)	WINE (Proof gallons) (b)	SPIRITS (Proof gallons) (c)	TRANSACTION (a)	BOTTLED (Proof gallons) (b)	PACKAGED (Proof gallons) (c)
1. ON HAND FIRST OF MONTH			27. ON HAND FIRST OF MONTH		
2. RECEIVED (Other than line 3)			28. BOTTLED OR PACKAGED		
3. ALCOHOL FOR FUEL USE RECEIVED FROM CUSTOMS CUSTODY			29. RECEIVED		
4. ALCOHOL FLAVOR MATERIALS DUMPED			30. INVENTORY OVERAGES		
5. WINE MIXED WITH SPIRITS					
6. DUMPED FOR FURTHER PROCESSING			31. TOTAL - LINES 27 THROUGH 30		
7. GAINS			32. TRANSFERRED IN BOND <sup>1</sup>		
8. TOTAL - LINES 1 THROUGH 7			33. WITHDRAWN TAX DETERMINED		
9. BOTTLED OR PACKAGED			34. WITHDRAWN FREE OF TAX: FOR U.S. HOSPITAL, SCIENTIFIC, OR EDUCATIONAL USE		
10. WINE MIXED WITH SPIRITS			35. WITHDRAWN WITHOUT PAYMENT OF TAX: FOR ADDITION TO WINE		
11. USED FOR DENATURATION			36. FOR EXPORTATION, VESSELS, AND AIRCRAFT, AND TRANSFER TO C.B.W.		
12. TRANSFERRED IN BOND			37. TRANSFERRED TO PRODUCTION ACCOUNT FOR REDISTILLATION		
13. WITHDRAWN TAX DETERMINED			38. WITHDRAWN FOR RESEARCH, DEVELOPMENT, OR TESTING (Including Gov. samples)		
14. WITHDRAWN FREE OF TAX: FOR U.S. HOSPITAL, SCIENTIFIC, OR EDUCATIONAL USE			39. DESTROYED		
15. WITHDRAWN WITHOUT PAYMENT OF TAX: FOR ADDITION TO WINE			40. DUMPED FOR FURTHER PROCESSING		
16. FOR EXPORTATION & TRANSFER TO C.B.W.			41.		
17. TRANSFERRED TO PRODUCTION ACCOUNT FOR REDISTILLATION			42.		
18. WITHDRAWN FOR RESEARCH, DEVELOPMENT, OR TESTING (Including Gov. samples)			43.		
19. DESTROYED			44. RECORDED LOSSES		
20. USED FOR REDISTILLATION			45. INVENTORY SHORTAGES		
21.			46. ON HAND END OF MONTH		
22.			47. TOTAL - LINES 32 THROUGH 46		
23.					
24. LOSSES					
25. ON HAND END OF MONTH					
26. TOTAL - LINES 9 THROUGH 25					

<sup>1</sup>Bottled nonindustrial (beverage) use spirits may not be received or transferred in bond